

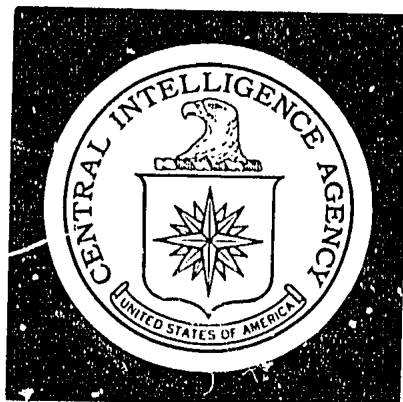
25X1

Approved For Release 2005/08/22 : CIA-RDP85T00875R001100100070-8

Approved For Release 2005/08/22 : CIA-RDP85T00875R001100100070-8

Secret

DPSP



DIRECTORATE OF
INTELLIGENCE



25X1

Intelligence Report

The Evolution of US-Panamanian Relations

Secret

88

30 June 1971
No. 1716, 71

WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
EXCLUDED FROM AUTOMATIC
DOWNGRADING AND
DECLASSIFICATION

~~SECRET~~

25X1

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
30 June 1971

INTELLIGENCE REPORT

The Evolution of US-Panamanian Relations
1968-1971

Summary

Since National Guard Commandant General Torrijos seized power some two and a half years ago, US-Panamanian relations have been in a constant state of disquietude. The US failure to embrace closely the Provisional Junta Government at its inception fed Torrijos' suspicions of the US, and the General has come to believe the US is behind every attempt to overthrow him.

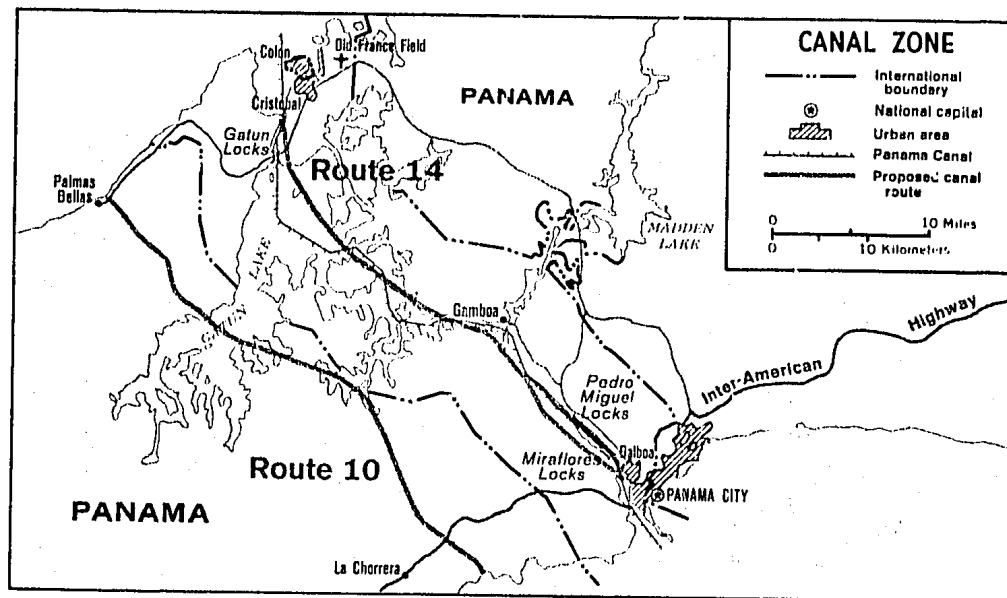
Although its rhetoric has thus far outpaced its performance, the regime has gone to great lengths to portray itself as a "revolutionary" government. The oligarchy has, of course, been set up as the main enemy, but the regime has also followed the time-honored Panamanian tactic of using the US as a foil in its attempts to gain support or to distract attention from domestic problems.

A period of increased tension is likely as the government sets the stage for a new offensive aimed at dumping the 1903 canal treaty. The Panamanians will attempt to gain full jurisdiction over the present Canal Zone and a substantial increase in economic benefits from the operation of the canal and from commercial activities in the Zone.

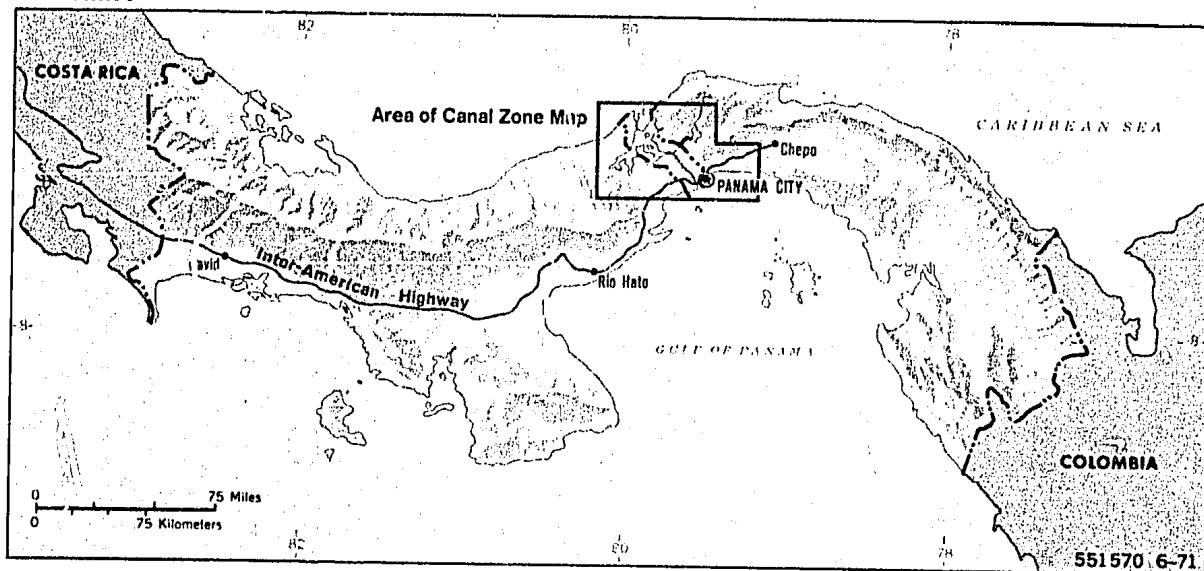
Note: This report was prepared by the Office of Current Intelligence and was coordinated within CIA.

~~SECRET~~

25X1



PANAMA



SECRET

25X1

Torrijos, who has strengthened his links with the Communists, recently reorganized the government in order to present a more leftist, more nationalistic image. Efforts now appear to be under way to organize students and other groups that could be called upon to force a confrontation with the US in case Torrijos becomes convinced that a little arm twisting would be a useful adjunct to his diplomacy.



LAKAS, Demetrio, B.
President of the Provisional
Junta Government

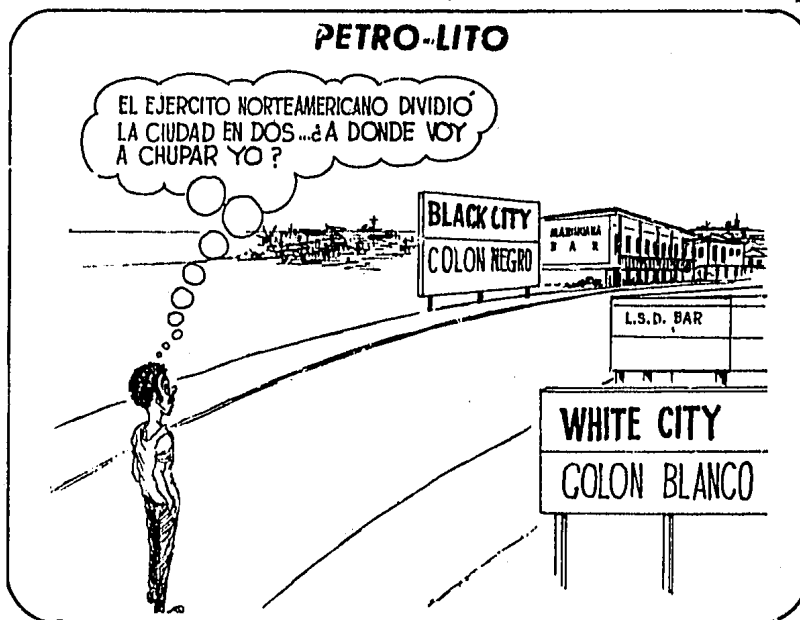


Brig. Gen. Omar Torrijos

SECRET

25X1

"The US Army has divided the city in two . . . Where am I supposed to go for a drink?"



"And free us, God, from all evil and Danger, Amen. . .and from the CIA also."

SECRET

25X1

Background

1. Panama, one of the great strategic cross-roads of the world, owes its existence as a nation to US interest in an interoceanic canal. Thus, the dividing line between domestic and foreign policy, particularly in relation to the Panama Canal, the Canal Zone, and the US, is very thin indeed. A principal and persistent aim of government policy since 1903 has been to whittle away at the dominant US position in Panama as embodied in the 1903 treaty. One after another, the oligarchy-dominated governments have attacked the treaty as inconsistent with the full realization of Panamanian sovereignty. A staple of the Panamanian political diet, therefore, has been anti-US rhetoric, and the US has long been the whipping boy in Panamanian election campaigns.

2. Under the 1903 treaty, the US was granted in perpetuity the use, occupation, and control of a strip of territory extending five miles on each side of the canal. Within this territory the US was to possess all the rights, power, and authority that it would have if it were sovereign. The US was also to guarantee, and was obliged to maintain, the independence of Panama.

3. This basic treaty has been amended twice. In 1936 the US duty to guarantee Panamanian independence and the concomitant right of intervention were abrogated, thus ending Panama's status as a virtual protectorate. In addition, the 1936 treaty raised the annuity that the US paid to Panama from \$250,000 to \$430,000. A second revision occurred in 1955. The annuity was raised to \$1,930,000, the principle of one basic wage scale for both Panamanian and US employees in the Zone was established, the US right to enforce sanitary ordinances in Panama City and Colon was ended, and certain minor territorial adjustments were made.

4. Despite these revisions, the underlying discontent remained. The Panamanians resent the life style of the large US community in the Zone and what they describe as the contrast between the affluence there and the poverty of Panama. As a

-3-

SECRET

25X1

~~SECRET~~

25X1

result of a gradually heightened sense of nationalism, Panamanians began to push for overt recognition of Panamanian titular sovereignty in the Canal Zone, particularly for a showing of the Panamanian flag. A number of concessions were made after anti-US rioting in 1959, but these only stimulated additional demands.

5. In June 1962, Presidents Kennedy and Chiari met as part of a continuing effort to remove the strains in US-Panamanian relations. One result was an agreement that the Panamanian flag would be flown in the Zone wherever the US flag was flown. An announcement to this effect by the Canal Zone governor in June 1963, along with an order that the US flag no longer be flown at a number of locations, including US schools in the Zone, led to protests by American students. On 7 January 1964, in defiance of the new regulation, students at Balboa High School in the Zone raised the US flag and maintained an overnight vigil to prevent its removal. Two days later, a large group of Panamanian students entered the Zone determined to raise the Panamanian flag at the school. A scuffle followed and the Panamanian flag was torn. Popular feeling was inflamed by radio and television reports and by Communist agitators. and three days of rioting, looting, and sniping ensued. During this time the Chiari government encouraged the riots by making anti-US speeches and refusing to call out the National Guard. When the rioting was over, 18 Panamanians and 4 US soldiers had been killed and more than 100 people had been injured. Property damage was estimated at \$2 million. Although an investigative committee headed by the International Commission of Jurists gave the US good marks for its handling of the crisis and disproved Panamanian charges of US aggression and brutality, Communist propaganda--spread throughout the world--on the events gave the US a diplomatic black eye. Panama broke diplomatic relations with the US and brought charges in the OAS and the UN Security Council. The riots, moreover, left Panama with a deep and abiding resentment against the US presence, and public opinion firmly united behind government demands for a fundamental revision of treaty relations with the US.

-4-

~~SECRET~~

25X1

~~SECRET~~

25X1

6. Diplomatic relations were restored after three months, and both sides agreed to seek prompt elimination of the causes of friction. From the Panamanian viewpoint, however, the real breakthrough came in December when President Johnson announced that the US was willing to negotiate an entirely new treaty to replace the 1903 document. For two and a half years negotiators labored over an agreement, and finally in June 1967 a new arrangement--embodied in three separate treaties dealing with the present lock canal, a possible sea level canal, and defense arrangements--was signed and ready for ratification.

7. The 1967 package, although generous in its treatment of Panamanian interests, became a political football in the 1968 Panamanian election. Ratification became impossible as opposition politicians vied in attacking the drafts and articulating additional demands that might be levied against the US. The 1968 election itself, one of the most sordid in the nation's history, pitted Arnulfo Arias, the leader of the country's largest political party--the Panamenistas--and the only politician with a large mass following, against the official government candidate, David Samudio. Despite strenuous efforts by the Robles administration in an election campaign marked by a degree of violence, fraud, and official interference exceptional even by Panamanian standards, it became apparent that Arias had won by a substantial margin. At that point the National Guard shifted from a position of open support for Samudio and agreed to an honest ballot count.

8. Arnulfo Arias twice before had won the presidency and each time had been unceremoniously deposed. He demonstrated no greater political agility the third time around. Upset by the blatantly political role of the National Guard, he began to strip the military of its political power. The younger Guard officers, under Colonels Omar Torrijos and Boris Martinez, moved first, however, and it was Arias who was ousted. Thus, only ten days after the inauguration of a constitutionally elected government, Panama found itself in the grip of its first direct military dictatorship.

-5-

~~SECRET~~

25X1

SECRET

25X1

Relations with the Provisional Junta Government

9. The interplay between domestic and international considerations that has affected the broad course of US-Panamanian relations over the years became particularly complicated in the period following the October 1968 coup. The new government found itself faced with two basic kinds of problems. It was concerned, first of all, with consolidating power in the face of any emergent opposition; it also had to resolve what were essentially questions of command and control. Second, it had to devise a domestic and foreign policy and translate the policy into a program of action. Neither task proved to be as simple as expected and, particularly in the pursuit of the first objective, US-Panamanian relations became strained from time to time.

Consolidation of Power

10. Anxious to short-circuit any opposition hopes of mounting a counter coup, the Junta government displayed at the outset great eagerness to secure the immediate recognition and support of the US. Although the military had seized control in a raw power play aimed at protecting its interests and unrelated to ideological conviction, the new government quickly sought to put some distance between itself and previous administrations. It made light, for example, of its defiance of the electorate by stressing the corruption of the traditional oligarchy-dominated political system and the meaninglessness of elections that offered only a choice between rival factions of the oligarchy and led to a perpetuation of governments that showed little concern for the problems of the peasant and the laborer. In an obvious bid for popular support, the Junta government advertised itself as a "revolutionary" regime that would purify the political system and usher in a new day for the "people." To impress the US and the international community, the Junta conspicuously pronounced itself anti-Communist and against corruption. Moreover, it intimated that general elections would not be far off.

SECRET

25X1

11. Despite high-sounding phrases, the early activities of the regime were often repressive and mainly keyed to the maintenance of power and control. Constitutional guarantees were suspended, political activity banned, university autonomy ignored, schools closed, and suspected opponents arbitrarily arrested. As a result, the US sought to avoid giving the impression that it approved and supported the actions of the National Guard in overthrowing a constitutional government, and relations could best be described as "correct" rather than "cordial." It was during this period, from October 1968 through October 1969, that Torrijos emerged as the dominant figure in the new regime. In the process he crushed the guerrilla movement started by the followers of deposed president Arias, and he exiled his fellow conspirator, Colonel Martinez, when the latter began to pose a serious challenge to his position.

12. Torrijos was barely 40 years old when he found himself the de facto leader of his country. He had spent his entire career in the Guard, where he had built a reputation as a capable and hard-working officer. Nevertheless, as an individual he was moody, impulsive, and simplistic in his views. Accustomed to an environment in which problems could be resolved simply by giving orders, Torrijos could not immediately adjust to the more complex process of policy making.

13. Torrijos appeared from the start to have conflicting feelings toward the US. He seemed to respect and admire the US, but he also exhibited a lack of confidence in US motives and in his ability to deal with the US; his respect and admiration thus shaded somewhat into fear and suspicion. Further complicating the picture, this inexperienced and insecure officer was deeply nationalistic and quick to react to real or fancied slights to himself or his government. Both in domestic and foreign dealings, Torrijos placed particular stress on rapport and on loyalty and saw things as either black or white--one was either a friend or a foe. He was quite upset, therefore, when the US gave him what he considered to be less than enthusiastic support,

~~SECRET~~

~~SECRET~~

25X1

and he resented the reduction of economic and particularly of military aid. This inauspicious beginning fed his suspicions and developed into the antagonism that has since characterized the Junta government in its relations with the US.

14. In the autumn of 1969 Washington adopted a more cordial policy, and Torrijos visited the US. He was favorably impressed by his trip and appeared eager to show his friendliness and to demonstrate that he could operate in the big leagues. In a meeting with General Westmoreland, for example, he gratuitously volunteered that he would support continued US use of the 19,170-acre Rio Hato Base when the base rights agreement expired in August 1970. After he had returned home, however, he had second thoughts, possibly fearing that he had made a fool of himself by giving away something for nothing. He began to back away from his commitment and indicated that perhaps a quid pro quo was in order.

15. The afterglow of his US experience did not last very long in any event. On 14 December 1969, while Torrijos was in Mexico on a pleasure trip, his second in command, Deputy Commandant Silvera, and Chief of Staff of the Guard Sanjur seized control of the government. Their coup was short lived, however, for Torrijos acted quickly and decisively. He flew to the interior of the country, rallied his supporters, and returned in triumph to Panama City on 16 December. In the aftermath of the coup attempt Torrijos seemed to develop an almost paranoid distrust of his fellow Guard officers, and his previous preoccupation with personal loyalty became a near obsession. In a frantic attempt to fix blame for the incident some of his subordinates within the Guard alleged that the US was involved in the abortive coup. Given Torrijos' earlier mistrust of US intentions, he undoubtedly was willing to give credence to such charges.

25X1

~~SECRET~~

25X1

Next 1 Page(s) In Document Exempt

SECRET

25X1

Policy Formulation

25. At the same time that Torrijos was concerned with coup plotting both inside and outside the Guard, he was also attempting to get on with the business of governing. The Guard's seizure of power from President Arias had been in the nature of a pre-emptive strike. There was no plan ready to be implemented; indeed, the Junta did not even know how long it wanted to remain in power. Yet, it was not very long before the Junta styled itself a "revolutionary" government and announced a sweeping program of reform. Whatever cynicism or expediency might have existed, there appeared to be a genuine interest in making a break with the past. The middle-class officers leading the coup seemed clearly fed up with the politicians, distrustful of the oligarchy, and genuinely interested in helping the poor. If "revolutionary" was perhaps an overblown term, it is at least fair to suggest that the regime was motivated by a mixture of nationalism and populism.

26. In seeking to sort out objectives and priorities, the regime focused first on the political arena and, making a virtue of necessity, it abolished by fiat the traditional political system. Ignoring constitutional forms and democratic procedures, it declared political parties extinct, banned political activities, and effectively destroyed

-12-

SECRET

25X1

SECRET

25X1

freedom of the press. Although able to formalize the fact that the locus of power had shifted from the politician to the military, the regime was by no means clear on how to go about legitimizing its position and broadening its political base.

27. Having no long-range plans and being impatient for results, the administration turned its attention to simple and highly visible projects that would have some impact on, and might win popular support from, middle and lower class elements. Lip service was paid to agrarian reform, the Guard stepped up civic-action programs, and labor was given to understand that it would receive a sympathetic ear from government. Although efficiency in the bureaucracy was improved, reforms were more cosmetic than real, and rhetoric outpaced performance. Even so, it had become clear that the new government was playing by different rules and would not opt for business as usual in the traditional Panamanian way.

28. In preparation for the celebrations marking its first year in power, the Junta sought to bring its policy goals into somewhat sharper focus. For example, it announced plans for an official government party modeled on the Mexican example. The New Panama Movement, as it was to be called, was conceived of as a broadly based political organization organized on a sector basis and including peasant, worker, student, and professional groups. Plans were also announced for a government-controlled national labor organization in which the participation of existing unions would be compulsory. In addition, there seemed to be a discernible interest in greater government regulation of the private sector.

29. Although by November 1969 it seemed that the government was getting ready to move into high gear in an effort to validate its revolutionary credentials, circumstances were to dictate otherwise. The December 1969 coup attempt and the resultant changes that Torrijos made in the government and the Guard interfered, but the most significant reason for a slowdown was the declining state of the economy.

-13-

25X1

SECRET

SECRET

25X1

30. The turbulent 1968 election campaign and the advent of the Junta government had badly shaken business confidence. The growth of private investment slowed, and urban unemployment increased. In order to counter the decline in investment and to improve its political image, the Torrijos regime had instituted an expensive public works program financed partly through high-interest, short-term foreign loans. The regime was gambling that business confidence would quickly recover and that government expenditures could be scaled down. This did not occur, however, and during 1969 the need for injections of foreign funds to sustain the high level of government investment continued unabated.

31. Torrijos was, in effect, attempting an impossible balancing act, and the stresses and contradictions in government policy were becoming increasingly apparent. On the one hand, Torrijos was continually sending out signals that the Junta would continue Panama's traditional policies favoring private enterprise and the participation of foreign investment in the economy in order to stimulate investor confidence. On the other hand, he was signaling other intentions. The regime's agrarian reform plans, its nationalization of the workers' compensation insurance system, talk of nationalizing cement, dairy, and sugar firms and of establishing plants to compete with private companies and, indeed, the plan to organize a national labor union were all upsetting to domestic business interests and at variance with the goal of restoring business confidence.

32. The period from November 1969 through May 1970 can be described as a time when the government learned some essential truths. The bright, middle-class technocrats whom Torrijos had put into cabinet positions and other high-level government posts were pulling in two directions as the administration continued to pursue incompatible and competing objectives. President Lakas, a friend of Torrijos appointed in December 1969, vainly attempted to build bridges to the business community. At the same time he repeatedly interceded with

-14-

SECRET

25X1

SECRET

25X1

Torrijos in an effort to restrain the government from precipitate action. Torrijos gradually came to understand that there was a wide gap between hopes and capacity and that policy formulation did not automatically lead to policy execution.

33. By May 1970, Torrijos was convinced that an accelerated program of social and economic reform could not be pursued without further disruption of the economy. With revenue still insufficient to support the politically necessary public works program, and concerned about Panama's standing with the international business community, Torrijos made a tactical retreat. Hoping to refurbish Panama's image with investors who were concerned over a possible leftist drift of the government, he removed two prominent leftists, Minister of the Presidency Vasquez and Minister of Labor Escobar, from the cabinet. From May 1970 through April 1971, "revolutionary" themes were muted.

34. At the risk of tarnishing his popular and progressive image, Torrijos concentrated on restoring his control over the Guard and improving its security capability. He crushed an extreme left-wing insurgency, and he contracted for the necessary foreign loans to finance government investment projects during 1970. Torrijos did not neglect efforts to increase his rapport with the masses. He continued his frequent trips to the interior, distributing largesse, cajoling villagers into cooperative self-help projects, and in general seeking to bring the government closer to the people.

35. During this period Torrijos also reached an accommodation with the Moscow-oriented Communist Party (the Panamanian People's Party-PDP). From the time of the 1969 coup the Communists had sought a modus vivendi with the Junta government, even during the Junta's early "anti-Communist" phase. The PDP's immediate objectives were to end the government's discrimination and harassment so that the party could compete freely for government jobs and leadership of the popular sectors. After Torrijos consolidated his position and began implementing nationalist and populist objectives, the

-15-

SECRET

25X1

[REDACTED]

PDP decided it could support him as a "national revolutionary" and a "progressive military leader" in keeping with the Soviet strategy of a peaceful road to power and with the tactic of a united front.

36. In the aftermath of the December 1969 coup attempt, Torrijos needed to neutralize antagonists and gain the support of as many elements as he could so as to utilize their capabilities to consolidate his regime. Accepting a modus vivendi with the Communists fitted these needs, and a deal was struck in the summer of 1970. Torrijos agreed to end harassment of the PDP, free Communist prisoners, and allow PDP exiles to return. He would end discrimination against PDP members and sympathizers, permit Communists to be hired by the government, and allow Communists equal opportunity to compete for leadership of student, labor, campesino, and community organizations. He would permit the PDP to maintain international contacts and would facilitate international travel of its members. He would selectively approve demonstrations by Communist-controlled, dominated, and influenced "popular" organizations, and selectively permit PDP pamphleteering and publication activities. In return, the Communists would actively support government policies and actions. The party would use its capabilities in media and among students, labor, campesinos, and community organizations to rally a militant clique in support of the Junta.

[REDACTED]

25X1

37. Both sides have thus far adhered to their commitments, each believing it has the better deal and that it is exploiting the other to its own advantage. Torrijos, though not an ideologue, does not find the ideology of the left uncongenial. Moreover, as long as the Communists direct their attentions against the US, the Canal Zone, and the oligarchy, their actions are in his interest. Should they forget who is the senior partner, he would not hesitate to crack down hard.

25X1

SECRET

25X1

38. The Communists are equally confident. As the only group in Panama permitted to conduct political activities with little or no harassment from the government, the PDP is in an excellent position to rebuild its infrastructure and expand its influence. Now that it is permitted to take over the leadership of students and to influence the leadership of the campesinos and is able to infiltrate the agrarian reform organization and to place its members or sympathizers throughout the bureaucracy, the Communist Party believes it can parlay its current role as a tool of Torrijos into something far more substantial. It obviously hopes that in a crisis situation Torrijos would have no choice but to turn to it for assistance.

39. By October 1970, Torrijos was more certain of his domestic position and less concerned over the possibility of being overthrown, but he was still worried about the economy and had become interested in Canal negotiations. The "revolution" remained in low profile, therefore, as he waited to see whether business confidence would increase and domestic private investment would respond favorably to his moderate posture. He waited also in order not to jeopardize a new round of negotiations for loans needed to finance his 1971 budget. In addition, he wanted to see whether the US would be accommodating on the Canal issue. As time progressed, however, the value of the soft line seemed to diminish. The business community did not flock to Torrijos' standard, foreign loans became increasingly hard to obtain, and the visit in March 1971 by Ambassador Anderson--the chief US treaty negotiator--served notice that the US would be far less accommodating than the regime had hoped.

40. Facing the prospect of a serious decline in economic performance and a tough battle with the US on a new treaty, Torrijos became convinced that it was time once again to lean to the left. In April 1971 the cabinet was reshuffled to restore the 1969 nationalist and "revolutionary" image. Vasquez and Escobar re-emerged as Minister of Government and Rector of the National University respectively, and other "progressives" were moved

-17-

SECRET

25X1

into important government jobs. The changes, which promoted the regime's politicians at the expense of its technocrats, appear to signal renewed government interest in turning amorphous popular appeal into dependable, organized support. Tolerance of increased political activity among students and peasants now seems likely, and a new effort to organize an official party may develop. Most of the constraints that have militated against radical social or economic experiments still obtain, however. The government continues to want to attract foreign investment and maintain business confidence. It also seems interested in serious negotiations with the US on the Canal. In addition, persistent budgetary strains make it difficult for the regime to embark upon spectacular new spending programs. Nevertheless, pressures from the left or a mood of frustration could result in moves at the expense of the oligarchy and of the domestic business community.

Canal Negotiations

41. Although the Torrijos administration represents a new kind of government dedicated to reversing the thrust of more than 60 years of oligarchical rule and to promoting far-reaching social and economic reform, it is very much in the mainstream of Panamanian history on the matter of a new treaty. Torrijos recognized that he would eventually have to take up where the Robles administration had left off, but it was not until mid-1970 that he began to move in earnest to confront this crucial issue. His trepidation was understandable. Although the successful conclusion of negotiations would represent a triumph of such monumental proportions that Torrijos' place in Panamanian history would be ensured, it was also clear that the political costs of an inept performance would be high.

The Underlying Stimuli

42. The government was convinced, however, that for political, economic, and even historical

SECRET

SECRET

25X1

reasons the time was ripe for a fundamental restructuring of the US-Panamanian treaty relationship. Torrijos has presented himself as a new phenomenon in Panamanian politics, but after establishing his revolutionary credentials and after promoting such reforms as could be quickly implemented and widely propagandized, he realized that economic constraints had tied his hands and that he had relatively little of a spectacular nature to offer immediately. In such a situation there was no better way to retain the interest and enthusiasm of a fickle populace than to ring up the curtain on the time-tested and ever-popular Panamanian political drama--Canal negotiations.

43. From an economic standpoint, a new treaty was equally compelling. Because it was anxious to maintain a high rate of economic growth and a high level of employment, the government had found it necessary to resort to a compensatory public investment program to counter the reduced rate of growth in private investment. Budget deficits had grown, government debt had mounted, and no particularly encouraging signs had appeared on the horizon. Almost as a reflex action when financial difficulties are encountered, Panamanian governments have long persuaded themselves that there would be no economic problems if the country were only receiving its "fair share" of benefits from the Canal. The Torrijos government, finding itself strapped for funds, was no exception. Despite the sizable indirect benefits (it derived a total of some \$159 million in 1970 from the presence of the Canal and the Canal Zone) the government was unimpressed with the \$1.93 million annuity it receives from the US and became convinced that a new and more favorable treaty would both revive the economy and provide funds for government-sponsored social reform programs. Torrijos was well aware that if the 1967 draft treaties had been accepted, his government would now be receiving nearly \$20 million, instead of less than \$2 million per year, in direct revenue from the Canal. These additional funds would have gone a long way toward alleviating the current budget squeeze. In addition, a new treaty would

SECRET

25X1

SECRET

25X1

open new opportunities within the present Canal Zone for Panamanian businessmen and help to restore domestic private investment to a satisfactory level. Thus, the government would be relieved of the necessity of propping up the economy and could reduce expenditures at the same time that it was falling heir to substantial new revenues.

44. In addition to perceiving compelling political and economic reasons for pursuing Canal negotiations at this time, the Panamanians also believe that from a historical perspective the time is ripe to undo the infringement on national sovereignty that resulted from the 1903 treaty. The Panamanians have long contended that the presence of a US Zone--an area with its own flag, its own police, and its own government--is anachronistic. Certainly since the 1950s, Panamanian nationalists have demanded in ever more strident tones fundamental changes in the treaty relationship. The riots in 1959 and 1964 were indicative of the crystallization of popular Panamanian frustration over the status quo, and the 1967 draft treaties, though believed unacceptable as a basis of a solution, produced a mood of expectancy within Panama. Panamanian demands and aspirations have risen so high over the years that whatever is achieved may seem anticlimatic.

45. Events in the rest of the hemisphere have contributed significantly to the feeling that history is on the Panamanian side. The nationalistic forces on the march in much of Latin America have provided a stimulus for the Panamanian political system, intensifying the country's determination to win a new and more favorable deal from the US. Thus, when the Peruvians and Bolivians declare in effect that political independence is a sham without economic independence, or when the Chileans and Venezuelans speak of the need to control more fully their economic resources, Panama is reminded of its own situation and the lack of control over what it views as its primary resource, the Canal.

SECRET

25X1

SECRET

25X1

46. Looking beyond the immediate Latin American examples, Panama is aware that a sympathetic world propaganda forum is available. Torrijos is convinced that in a dispute with the US on the Canal issue Panama could gain the sympathy and perhaps the diplomatic support of much of the underdeveloped world. In addition, he believes that the Communist states would seize upon a ready-made opportunity to demonstrate solidarity with a small Latin American state against the US. Panama seems prepared to bring its case before the UN if necessary, in order to focus international attention on the Canal issue.

The Parameters of a Settlement

47. The backdrop for Panama's negotiating position is the 1967 draft treaties. Although the Torrijos government formally rejected them in September 1970, they remain significant in two respects. They provide the administration with some indications of the kinds of concessions the US was prepared to grant, and they represent a yardstick against which Torrijos' own negotiating performance can be measured. Torrijos will be under pressure to surpass the achievements of the oligarchy-dominated governments of Presidents Chiari and Robles.

48. The 1967 draft treaties gave Panama a number of very significant concessions. First, Panama was to receive more money. Instead of a fixed annuity of \$1.93 million, it was to be allotted a share of the canal revenues, which it was estimated would be about \$20 million. Second, Panama was to gain territory. Some of the land that is now part of the Canal Zone was to revert to Panama, and from the remaining territory would be created a Canal Area and a number of US-controlled defense areas. Third, Panama was to gain a voice in the administration of the Canal Area and the operation of the Canal. Instead of the present Canal Zone Government, the drafts proposed a bi-national administration governed by a board of five Americans and four Panamanians. US courts with exclusive jurisdiction over all crimes committed within the Zone were to be replaced by a Canal

SECRET

25X1

SECRET

25X1

Area court system composed of an equal number of US and Panamanian judges. Fourth, the perpetuity clause of the 1903 treaty was to be abolished. Panama was to receive the present canal and related facilities around the year 2000; it was expected that the US would build a new sea-level canal that would be turned over to Panama by 2067.

49. During the discussion of the 1967 drafts in Panama there was strong objection to the idea of a joint administration controlled by the US continuing to exercise considerable jurisdiction in the canal areas. The Torrijos government is therefore placing greatest stress on the recovery of full jurisdiction for Panama. Another important consideration will be economic benefits. The Panamanians realize that the US is unwilling to relinquish control of the operation and defense of the Canal, and there are no indications that they are prepared seriously to challenge the US on these points. They will want, however, increased Panamanian participation in Canal operations and a symbolic role in its defense. A major sticking point will be the issue of perpetuity, with the Panamanians pressing for a definite termination date for any new treaty.

50. The Panamanian negotiators will argue that neither the present ten-mile-wide Canal Zone nor the present Canal Zone Government is necessary in order to ensure the continued successful operation of the Canal. Concerned over the expansion of Colon and Panama City, the Torrijos government has been particularly exercised by the fact that many areas within the Zone are either underutilized or not used at all. The government will, therefore, demand that all Zone territory not directly related to Canal operations, defense, and maintenance be immediately returned to Panama.

51. A major area of concern for the Torrijos government has been the availability of the Zone as a sanctuary for political opponents. The government, moreover, has been dissatisfied because Panamanians in the Zone must obey US laws and regulations.

-22-

25X1

SECRET

SECRET

25X1

25X1

As a result, Torrijos will insist that Panama be allowed to exercise full political, fiscal, judicial, and administrative jurisdiction in what is now the Canal Zone.

25X1

At a minimum, the Panamanians will seek to control all governmental functions not directly related to the operation of the Canal.

52. On the economic side, the government will insist that commercial activities located in the Zone be opened up to Panamanian participation and regulation. In addition, Torrijos will seek a substantial increase in the present annuity and probably will insist on a guaranteed minimum in excess of what Panama was to receive under the 1967 drafts.

53. In the light of historic Panamanian sensitivities and the highly nationalistic posture of the present government, Panama will be no less jealous of its sovereignty where defense of the Canal is concerned. The Torrijos government will take the position that any US military presence must be related directly to the tactical defense of the Canal and that other concerns, such as hemispheric defense or anti-insurgency training activities, be considered separately. The Panamanians have carefully studied the US-Spanish base rights agreement and will seek some similar arrangement. They will demand cash payments for bases and probably will seek increased military assistance and joint consultation on the use of US military forces.

25X1

For both political and economic reasons, the government would like a speedy settlement. Torrijos realizes, however, that he must put together a package that can be sold to the Panamanian people on the basis of its emotional appeal as well as its economic palatability. In no case, therefore, is Panama likely to settle for economic gains without

25X1

SECRET

~~SECRET~~

25X1

revision of the 1903 treaty to take into account the symbolic and nationalistic aspirations that are embodied in the question of territorial jurisdiction. If negotiations drag on, however, Torrijos may be willing to accept an interim arrangement that transfers to Panama some Canal Zone territory and provides increased economic benefits.

55. Although negotiations could proceed best in an atmosphere of quiet diplomacy in which flexibility of position can be preserved and various alternatives and formulations calmly considered, the Torrijos government already is beginning to focus popular attention on the Canal issue and publishing some of the main elements of its position. In part, the government may be working to head off any later charge that it was acting secretly to conclude an unfavorable agreement with the US. More likely, however, it is attempting to demonstrate in advance to the US its inability to compromise in certain areas.

56. There are, of course, some advantages in dealing with the Torrijos government. Partisan political activity is at a virtual standstill, and unlike most previous Panamanian leaders, Torrijos does not have to worry about political pressures, at least in the short run. There will not be a cacophony of politically motivated editorials forcing him off-balance, and political parties will not be falling over one another in an effort to demonstrate their nationalism or their anti-Americanism. Torrijos can--if he wishes--control the media, keep the negotiations private, and build a consensus in favor of any agreement that is reached.

25X1

~~SECRET~~

25X1

25X1

Approved For Release 2005/08/22 : CIA-RDP85T00875R001100100070-8

Approved For Release 2005/08/22 : CIA-RDP85T00875R001100100070-8